

Message Text

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S E C R E T ROME 5296

EXDIS

E.O. 11652: GDS
TAGS: PFOR, EFIN, IT, IMF
SUBJECT: FINAL AGREEMENT BETWEEN GOI AND IMF AND NEW STANDBY

REF: ROME 5147

1. IN VIEW OF REPORTS THAT IMF STAFF HAS NOT YET TAKEN
FINAL POSITION APPROVING PROPOSED NEW STANDBY AGREEMENT WITH
ITALY AND SOME CONFUSION CONCERNING HOW FINAL AGREEMENT
WILL BE WORKED OUT BETWEEN THESE TWO PARTIES, I WOULD LIKE
TO REITERATE MY VIEWS ON THIS QUESTION (REFTEL).

2. I APPRECIATE NEED FOR IMF, US, GERMANY AND OTHERS
CONSTANTLY TO HAVE EXERTED PRESSURE ON ITALIANS DURING
NEGOTIATION OF STANDBY IN ORDER TO ASSURE ADEQUATE INTERNAL
REFORM MEASURES IN EXCHANGE FOR NEW LOAN AS WELL AS IMF
CONCERN ABOUT NOT ESTABLISHING BAD PRECEDENTS FOR FUTURE
STANDBY NEGOTIATIONS WITH OTHER COUNTRIES. IN MY JUDGMENT,
ALTHOUGH STABILIZATION PROGRAM IS FAR FROM IDEAL, IT IS
BEST THAT CAN BE OBTAINED GIVEN CURRENT POLITICAL SITUATION
HERE AND WE WOULD BE DELUDING OURSELVES TO THINK THAT
GOI IS NOW IN POSITION TO OBTAIN ANYTHING FURTHER FROM
LABOR UNIONS ON LABOR COST QUESTION. ALTHOUGH PROPOSED
STERILIZATION OF VALUE ADDED TAX FEEDBACK EFFECT WOULD

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HAVE BEEN VERY USEFUL COMPONENT OF STABILIZATION PROGRAM,
WE MUST EVALUATE TOTALITY OF ITALIAN EFFORT IN MAKING
OUR JUDGMENT ON QUALITY OF PROGRAM. MEASURES PROPOSED
IN SUBSTITUTION FOR IVA STERILIZATION WILL HAVE AT LEAST
EQUAL IMMEDIATE EFFECT. IMF HAS ALREADY PROTECTED ITS
POSITION BY INSISTING UPON PROGRAM THAT EXTENDS THROUGH
1978, BY TRANCHING DRAWINGS OVER THAT PERIOD OF TIME

AS WELL AS BY INSISTING UPON ALMOST CONTINUOUS REVIEW OF PERFORMANCE. DENIAL OF STANDBY WILL JEOPARDIZE COOPERATION OF NATIONAL LABOR LEADERS WHICH HAS BEEN OBTAINED, TO LIMITED EXTENT, WITH GREAT DIFFICULTY. BEST BET NOW IS TO PROCEED WITH NEW STANDBY WHICH WILL PROVIDE MECHANISM FOR EXERTING CONSTANT PRESSURE ON GOI TO PERSEVERE IN STABILIZATION EFFORT.

3. I NEED HARDLY CALL ATTENTION TO CRITICAL POLITICAL ASPECTS OF STANDBY QUESTION. HAVING MADE SERIOUS EFFORT TO PUT TOGETHER STABILIZATION PACKAGE BOTH IN BELIEF THAT IT IS NEEDED AND UNDER PRESSURE FROM ITALY'S FRIENDS AND ALLIES, DENIAL OF STANBY WOULD HAVE SERIOUS REPERCUSSIONS ON INTERNAL POLITICAL SITUATION, PROBABLY BRINGING DOWN ANDREOTTI GOVERNMENT. GOI NOW BELIEVES THAT IT HAS MADE MAXIMUM POLITICAL AND ECONOMIC EFFORT AND IS LOOKING TO ITS FRIENDS FOR SUPPORT WITH IMF. THUS, AT THIS FINAL STAGE I WOULD STRONGLY RECOMMEND THAT USG LET ITS VIEWS BE CLEARLY KNOWN TO IMF STAFF, PERHAPS IN COORDINATION WITH GERMANS AND OTHER INTERESTED IMF MEMBERS. GARDNER

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